

**AN EVOLVING U.S. FARM AND FOOD POLICY:
THE EMERGENCE OF A NEW COVENANT**

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EXECUTIVE SUMMARY

AN EVOLVING U.S. FARM AND FOOD POLICY: THE EMERGENCE OF A NEW COVENANT

Overview:

- U.S. farm and food policy is a politically bipartisan social covenant which evolves to reflect changing relationships among competing policy actors and their socioeconomic environment.
- The farm and food policy covenant includes: (1) protection against low farm income via price supports and direct income payments, (2) protection against high food expenditures via public stocks and domestic feeding programs, (3) protection against high federal budget costs by requiring farmers to remove land from production in order to qualify for farm program benefits, and (4) protection against resource degradation via technical assistance, cost sharing for soil erosion control, and environmental compliance provisions.

Long Term Evolutionary Trends in Policy Instruments

- *Direct income payments to producers have largely replaced farm commodity price supports as the policy instrument used to protect against low farm income.*
 - Price supports raise prices, thereby encouraging stock accumulation, discouraging exports, and discriminating against poor consumers, who spend more of their income on food.
- *Environmental restrictions are replacing acreage set-asides as the farm program entitlement criteria.*
 - Primary reasons are (1) growing importance of the environment on the national agenda and (2) increasing share of inputs purchased annually. The latter implies (1) input suppliers do not want production controlled and (2) controls on land become less effective in controlling total output.
- *Domestic feeding programs, notably food stamps, have replaced in part public stocks as policy mechanism to protect against high food prices, while crop insurance and ad hoc disaster assistance have augmented public stocks as a policy tool to protect against low farm income.*
 - On average, consumers spend only 3% of their income on U.S. farm commodities. Farm commodity prices are relatively inconsequential to most consumers. Therefore, high food expenditure burden is a problem only for U.S. consumers who are poor.
 - Crop insurance and wide-spread use of ad hoc disaster assistance augment the farm income protection effect of public stocks (i.e., public stocks are purchased when prices are low).

Important Current Evolutionary Agents

- *Parity of Farm Household Income* (farm + nonfarm), exists on average with nonfarm household income. Low income no longer is an acceptable rationale for sector-wide farm programs.
- *The societal belief that farming is a political and economic foundation of this country (i.e., farm fundamentalism) is increasing difficult to defend.* Farming now accounts for only approximately 1.5% of U.S. economic activity and less than 2% of its population.

Implication for Farm Policy Debate

- *Farm policy needs a new covenant* based on ideas other than low farm income and farm fundamentalism. Two ideas appear viable: (1) *reducing income risk induced by weather* - the common citizen understands that farming is unique in this respect, and (2) *compensatory payments to farmers for environmental compliance*. Monitoring compliance with regulations of non-point pollution, such as occurs from farm land, is more difficult and expensive than monitoring and regulating point pollution, such as occurs from smokestacks. Thus, it may be less costly to attain environmental objectives in crop farming by enticing farmers to "voluntarily" adopt environmentally friendly rules rather than the traditional compliance approach.

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U.S. farm and food policy is a politically bipartisan social covenant which evolves to reflect changing relationships among competing policy actors and their socioeconomic environment. These changing relationships have generated three important long-term evolutionary trends in the policy instruments used to implement the historic farm and food policy covenant. However, two new evolutionary agents affect the essence of this covenant, not just the way in which it is implemented. Each of these evolutionary considerations are discussed in this article with special attention to their significance for the debate on the 1995 farm and food legislation.

HISTORICALLY IMPORTANT FARM POLICY ACTORS

Seven policy actors have continuously participated in farm and food policy debates since farm price and income support became an integral component of farm and food policy in the 1930s. These seven actors are program commodity producers, input suppliers, output handlers, users and processors, consumers, food aid advocates, taxpayers, and environmentalists. Each of these actors has several objectives relative to farm and food policy, but each also has a clearly defined central objective(s).

The major objective of program commodity producers is high, stable farm income (Table 1). High farm income occurs when prices and output are high. High farm income in turn stimulates farmers to purchase large quantities of farm inputs. Higher net income for farm input suppliers result.

**TABLE 1: IMPORTANT U.S. FARM AND FOOD POLICY ACTORS AND
THEIR MAJOR POLICY OBJECTIVE(S)**

<u>Actor</u>	<u>Major Policy Objective(s)</u>
Program Commodity Producers	High, Stable Farm Income
Input Suppliers	High Farm Input Purchases
Output Handlers, Users, & Processors	High Output Volume & Low Commodity Input Prices
Consumers	Safe, Adequate Food at "Reasonable Prices"
Food Aid Advocates	Food Access by the Poor
Taxpayers	Low Government Costs
Environmentalists	Resource Sustainability

Output handlers, users, and processors prefer low farm prices and high farm output. The former means low input costs for output users and processors, including livestock producers; while the latter means a larger volume of business activity for output handlers and processors. Higher income for output handlers, users, and processors result. Low prices and high farm output also increase access to food for the poor by putting downward pressure on food prices and increasing the likelihood of surplus food distribution programs.

The major objective of consumers is safe, adequate food at "reasonable prices." It is commonly argued that consumers want low farm prices. However, their behavior

during the last 25 years suggests they are more concerned with avoiding high prices than with paying low prices. For example, during the price explosion of the early 1970s consumers become vocal about rising food prices. In contrast, during the 1980s consumers in general did not lobby for lower farm price supports despite substantial surpluses.

Taxpayers prefer minimum government spending, which translates into low taxes. The level of farm prices is an important determinant of the pressure to expend government spending on food and farm programs. High prices generate pressure from consumers, food aid advocates, and output handlers, users, and processors for public expenditures to expand production as well as public stock holding activities. In contrast, low prices generate pressure from producers and input suppliers for expanded income support.

From the 1930s through 1970, the policy actors who are now termed environmentalists primarily focused on using farm programs as a tool to conserve land, especially soil. However, since the early 1970s, they have become concerned with a broader array of resource degradation problems as they relate to farming, notably water quality. They also have become concerned that farm programs may encourage the intensive use of land and may increase the use of fertilizer and pesticides, both effects which environmentalists feel negatively impact soil and water quality.

Historic Farm and Food Policy Covenant

Objectives of the farm policy actors are in conflict. It is not possible to have low farm prices for output handlers, users, and processors; high farm prices for program commodity producers and input suppliers; allow farm operators freedom to make their

own production and marketing decisions; and attain efficient use of scarce resources.

Despite the complex trade-offs, the political interplay of these seven actors has defined the historic U.S. covenant on farm and food policy. The compromise covenant involves:

(1) protection against low farm income (whether caused by structural adjustments to excessive resources in farming or unexpected bearish market events) via price supports and income payments, (2) protection against high food expenditures via public stocks and domestic feeding programs, (3) protection against high federal budget costs by requiring farmers to remove land from production in order to qualify for farm program benefits, and (4) protection against resource degradation via technical assistance, cost sharing for soil erosion control, and, more recently, environmental compliance provisions. This covenant does not allow any of the seven actors to attain their major farm policy objective, but it does provide protection against an outcome they want to avoid¹.

LONG-TERM EVOLUTIONARY TRENDS IN POLICY INSTRUMENTS

The policy objectives of the historic farm and food policy covenant has changed little since it was first enacted during the 1930s. However, the policy instruments used to obtain the objectives have evolved to reflect changes in the socioeconomic conditions of

¹ Many other farm policy actors are concerned that the historic farm and food policy covenant generates distortions which negatively affect them. Three are especially prominent at present: exporters to the U.S., U.S. export competitors, and rural development advocates. The first two are concerned that barriers to trade erected as a result of U.S. farm programs, such as quotas on imports into the U.S. and export promotion programs, reduce their exports. Rural development advocates are concerned that, with a limited federal budget, farm programs may siphon funds from other needs of rural society, such as assistance for the rural poor, infrastructure, and non-farm economic development.

the various actors. Three important evolutionary trends in policy instruments are discussed in this section.

Direct income payments to producers have largely replaced farm commodity price supports as the policy instrument used to protect against low farm income.

Prior to 1960, the primary mechanism used to protect against low farm income was the government's accumulation of stocks whenever market prices declined below the support price. Because the support price tended to be higher than the market clearing price, price supports encouraged production while discouraging both domestic consumption and exports. The net result was the accumulation of public stocks.

During the late 1950s/early 1960s, public stocks became excessive, resulting in substantial federal expenditures. A policy debate ensued in which most farm groups defended price supports. However, as time passed, the deciding arguments became (1) a desire to increase exports and (2) the concern that, by raising the price of food, price supports are a tax on consumers, especially the poor. Poor consumers especially are affected by higher prices because they spend more of their income on food.

During the early- and mid-1960s, price supports were replaced in part by income supports provided through paid land set asides. During the 1970s, deficiency payments became the primary mechanism for providing direct income support. The *Food Security Act of 1985*, which was driven in part by a buildup in stocks and a decline in exports, confirmed this trend to deficiency payments by reducing price support loan rates below market clearing price levels.

Environmental restrictions are replacing acreage set-asides as the farm program entitlement criteria.

Farm price and income support programs are entitlements. Thus, anyone who meets the program qualifying criteria can receive the benefits. The traditional entitlement criteria is that the farm operator set aside a percent of the acreage historically planted to the program commodity. The set-aside is a co-payment in the sense that the operator reduces production of a surplus commodity thereby decreasing government cost.

Historically, farm operators were viewed as good environmental stewards, but the growing concern for the environment during the 1970s and 1980s caused this view to be questioned. At the same time, society began to reveal in its policy decisions that it no longer considered farming a unique industry and therefore exempt from many regulations previously imposed upon non-farm industries. An example is the adoption of farm labor laws.

Reinforcing these trends is the increasing substitution of inputs purchased annually, notably pesticides, fertilizers, and improved seed, for land and operator household labor in producing crops. Consequently, an increasing number of input suppliers want more acres planted to crops. This economic interest conflicts with the traditional farm policy perspective of retiring land in order to control government expenditures.

The confluence of environmental concerns and increasing reliance on annually purchased inputs has laid the foundation for potentially replacing supply controls with environmental restrictions as the farm program entitlement criteria. A bellwether of this evolution is the requirement that by 1995 farm operators have implemented a soil conservation program for their highly erodible land in order to qualify for farm program

benefits. The growing importance of the environment on the national agenda and increasing importance of annually purchased inputs suggest that environmental restrictions eventually will replace set asides as the entitlement criterion.

Domestic feeding programs, notably food stamps, have replaced in part public stocks as policy mechanism to protect against high food prices, while crop insurance and ad hoc disaster assistance have augmented public stocks as a policy tool to protect against low farm income.

In the late 1940s, the U.S. farm value of food accounted for approximately 12 percent of expenditures by U.S. consumers. Because of increases in farm productivity and per capita income, the farm value of food now accounts for only 3 percent of expenditures by U.S. consumers. Psychographic studies reveal that price and income are the dominant determinant of food purchases for only about 10 percent of Americans. For the remaining 90 percent lifestyle is a more important determinant. Furthermore, exports account for 20-25 percent of U.S. farm output. Food security (i.e., assured access to food) for U.S. consumers is assured by opportunities to reduce exports or livestock feed use. Consequently, food security for U.S. consumers no longer is a question of quantity and price of farm commodities. Instead, it is primarily a question of the consumer's income. Thus, food security is a problem only for low income consumers.

These factors have combined to create a trend toward food security being handled through income transfers which facilitate the purchase of sufficient quantity of food by low income consumers rather than through the accumulation of public stocks. This trend began with the initiation of a food stamp program during the early 1960s. At present, one in ten Americans receives food stamps, the largest share ever.

This trend toward reducing the role of public stocks in food assistance has paralleled the growing use of crop insurance and *ad hoc* disaster assistance as tools to protect against low farm income. These disaster-related programs augment the income protection effect of public stocks on farm income (i.e., public stocks are purchased when prices are low). This trend suggests that the policy arena is rethinking the role of public stocks as a tool for protecting against low farm income.

These two trends do not mean that there is no role for public stocks. Studies have reached conflicting conclusions regarding whether the private sector alone will hold a socially optimal level of stocks. Nevertheless, these trends do suggest that the role of public stocks will be smaller in the future.

IMPORTANT CURRENT EVOLUTIONARY AGENTS

While the policy mechanisms used to implement the farm and food policy covenant have evolved over time to reflect changing socioeconomic conditions, the right of farmers to receive protection against low income has rarely been questioned to any significant degree in the political arena. The primary reasons were (1) that farmers were perceived to be economically disadvantaged and (2) farm fundamentalism, a belief that farming is the political, social, and economic foundation of the U.S. However, these two rationales are increasingly being scrutinized because they deviate substantially from reality in the 1990s.

Parity of Household Income

When farm price and income support programs were first started, farmers were clearly an economically disadvantaged class. For example, in 1933 per capita income of the farm population was 33 percent of the per capita income of the nonfarm population. While comparable per capita income data does not exist for recent years, national statistics reveal that the average income of U.S. farm households (farm plus nonfarm income) is on par with the average income of U.S. nonfarm households. The reasons for this substantial change in the economic status of farm families are the massive exodus of farm labor and the growth of part-time farming.

Farm Fundamentalism?

Farming now accounts for only 1.5% of U.S. economic activity and less than 2% of its population. It requires tremendous hubris to suggest that such a small component of the U.S. remains the moral or cultural foundation of this country.

IMPLICATIONS FOR FARM AND FOOD POLICY

The current debate over farm price and income support programs is commonly attributed to the federal budget deficit and a changing set of national priorities. This argument ignores the more basic debate with regard to the questionable validity of the foundation arguments which have historically underpinned society's willingness to support farm income. This argument also ignores the concurrent evolution of new foundational rationales for society's continued support of the farming sector. *One is reducing the*

income risk which farmers face because of yield variability caused by weather and pest. The second is compensating farmers for environmental regulatory costs or for reducing the use of fertilizers and pesticides.

Both of these evolving rationales meet the three key attributes which rationales for farm support must possess in the socioeconomic and political climate of the U.S. in the 1990s. First, a foundation argument must be simple in concept. Complex concepts and ideas will fall upon deaf ears due to the limited attention span of the U.S. public and to a belief that complexity hides other motives. Second, a foundation argument must reflect the convictions of the times. Because farming no longer is considered unique, its policy initiatives must fall under the broader social and political issues of the time. Third, because farming no longer has enough sheer political power to force its will onto center stage, a foundation argument must have a solid underpinning in economic fact.

The common citizen understands that farmers face risk because of weather. This understanding is continually reinforced by media coverage of droughts, flooding, frost, and other natural phenomenon. Reducing income risk caused by natural disaster falls under the current conviction that government should compensate citizens for damage caused by uncontrollable events. This conviction is illustrated by the availability of low-interest loans after natural disasters such as earthquakes and hurricanes as well as the current debate over catastrophic health insurance. Note, this rationale does not support the concept of income insurance for farmers because it does not encompass non-weather-related causes of income variation, such as unexpected changes in foreign and domestic demand.

Turning to compensatory payments, it is widely accepted that monitoring compliance with regulations of non-point-source pollution, such as occurs from farm land, is more difficult and expensive than monitoring regulations of point-source pollution, such as occurs from a smokestack. This is further compounded by the need to monitor a large number of individual operators in farming relative to other industries. These arguments suggest it may be less costly to attain environmental objectives in crop farming by economically enticing farmers to "voluntarily" adopt environmentally friendly practices. The "voluntary" compliance approach is being used with regard to conservation compliance, and it appears that the majority of acres planted to crops which now receive price and income supports will meet conservation compliance requirements by 1995.

In conclusion, both of the evolving foundation arguments are extensions of policy shifts which have been emerging for a decade. Nevertheless, adopting either of these two ideas as the foundation for public income payments to farmers results in a very different program than the current income and price support programs. Protection against weather-related risks leads to some combination of crop insurance, *ad hoc* disaster assistance, and/or other risk-related policy instruments. Compensatory payments for environmental compliance suggests that deficiency payments and price supports should be replaced by a per acre payment determined by the value of the environmental benefits to society and should be extended to all crops. Both foundation arguments are currently being debated and their resolution is uncertain, but evolutionary policy trends suggest that these arguments will prevail and that farm support, although in a different form, will continue well into the 21st century.

